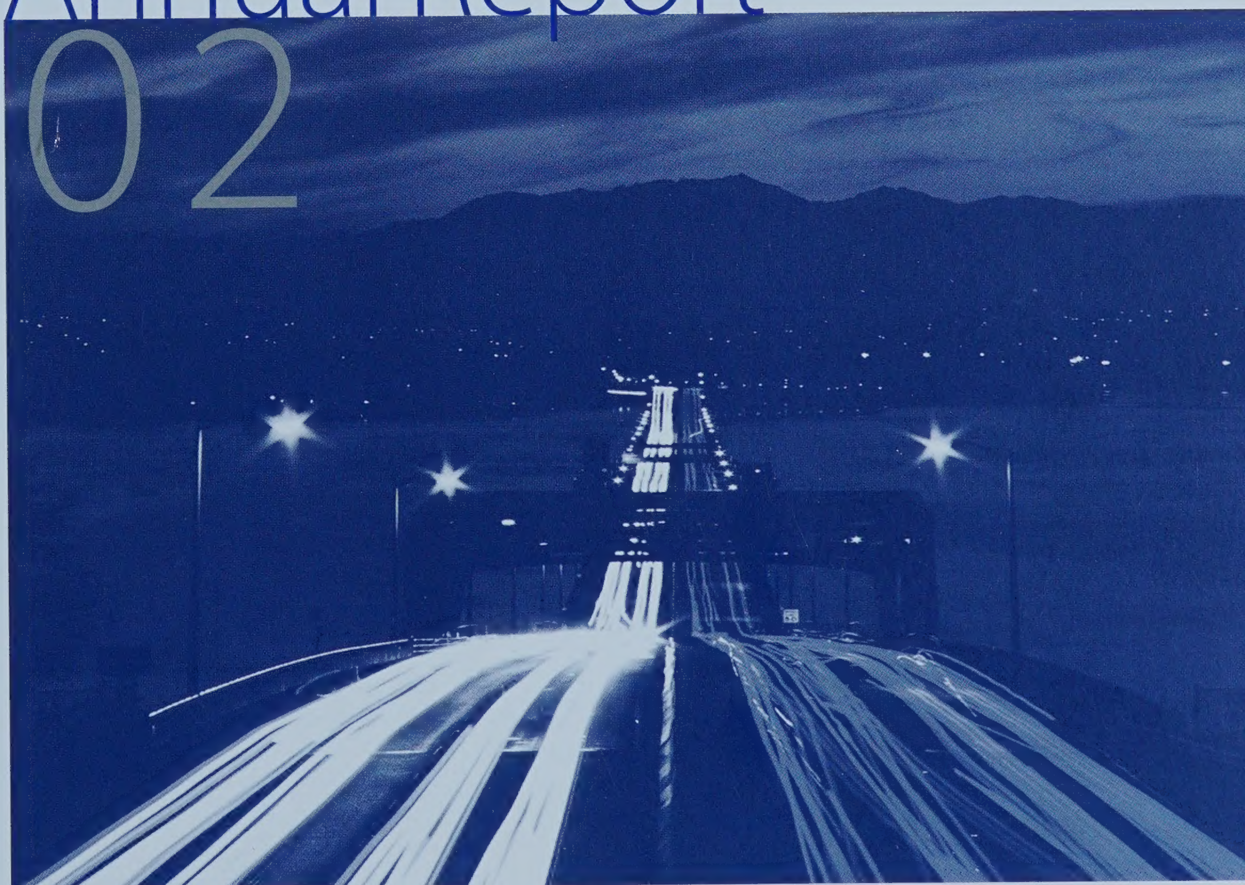
Livingston International
Income Fund

Advancing Cross-Border Trade

Annual Report 2002



Corporate Profile

The Livingston International Income Fund completed its initial public offering in February 2002, and purchased the securities of Livingston International Inc., Canada's leading customs brokerage company and trade-related services provider facilitating two-way trade between the United States and Canada. Based in Toronto, Ontario, the company has over 70 offices and approximately 1,650 employees located at key border points and other strategic locations across Canada and the United States. The policy of Livingston International Income Fund is to pay even monthly distributions. Units of the Fund trade on the Toronto Stock Exchange under the symbol LIV.UN.

Highlights

Livingston International Income Fund

(February 11 – December 31, 2002)

- Met monthly distribution expectations of $0.096 per unit.
- Raised monthly distributions 5% in September to $0.101 per unit.
- Unit price performed strongly, increasing 13.7% from IPO to close the year at $11.37.
- Delivered total returns to Unitholders of 24%.

Operating Company: Livingston International Inc.

(January 1 – December 31, 2002)

- Achieved record revenues of $141 million.
- Increased Canadian and U.S. brokerage transaction volumes 2% to 3.2 million.
- Rolled out new web software that allows shippers to communicate electronically in the protocol of their choice.
- Applied for membership in C-TPAT, a new U.S. security program. Membership achieved subsequent to year end.
- Doubled the size of transportation brokerage business through the acquisition of Consultrans.

Content

Fiscal 2002 has been a busy and exciting year for the Livingston International Income Fund, beginning with the initial public offering, which raised gross proceeds of $151 million. This report will discuss the performance of the Fund and its operating company for the period from the completion of the initial public offering on February 11, 2002 to December 31, 2002.

At the time of the IPO, the trustees of the Livingston International Income Fund adopted certain targets regarding the distribution of income to its unitholders. I am pleased to report that we met our target distributions and, in September, raised distributions by 5%. On a monthly basis, distributions increased from $0.096 per unit to $0.101 per unit. As a result, distributions for the period from the offering until December 31, 2002 were $1.033 per unit. The total return on the trust units from cash distributions and unit appreciation for the period was 24%.

The trustees have set the Fund's distribution policy to seek to ensure the stability and sustainability of payments to unitholders. To fulfil this objective, our policy is conservative. The Fund intends to pay cash distributions to unitholders consistent with the terms of its prospectus, and also maintains in the operating company a cash reserve for smoothing monthly fluctuations brought about by seasonality, unforeseen additional expenses and/or maintenance capital expenditures, and potential increases in future distributions. To December 31, 2002 that reserve is $0.319 per unit.

Underlying our ability to meet the expectations of our unitholders is the performance of the operating company, Livingston International Inc., which is the leading customs broker in Canada, providing customs brokerage and other trade-related services. It has an excellent track record of growing revenues and earnings.

In addition to its ability to generate stable revenue streams, Livingston International also has the opportunity to achieve meaningful growth. The company expects to grow by maintaining its client base and cross-selling additional services to that base, by growing its transportation brokerage business and through the acquisition of other customs brokerage and transportation businesses. A more detailed discussion of the operating company can be found on page 2.

While steady distributions and strong operating company results are the cornerstones of the Livingston International Income Fund, good stewardship also plays a critical role in delivering on our unitholder's expectations.

The Fund is governed by six trustees, all of whom are also directors of the operating company. Peter Luit, President and Chief Executive Officer of Livingston International, and Ben Wong, Senior Vice-President and Chief Financial Officer, are also senior officers of the operating company. The remaining trustees, all experienced business executives, Jacques Landreville, Doug Harrison, Joseph Natale and myself, are independent directors of the operating company.

Under the guidance of the trustees, the Fund has provided investors with steady and increasing distributions during its first fiscal year. We are pleased that the market has recognized the value of the Fund's units, increasing the unit price 13.7% from the initial $10.00 offering price to $11.37 at the close of market December 31. We expect to continue along this path, marrying the Fund's conservative distribution policy with the strong performance of the operating company to deliver solid returns to unitholders.

Peter Restler
Chairman, Livingston International Income Fund

About Livingston International

Livingston International Inc. facilitates the international movement of goods for its clients, providing customs brokerage and trade related services. The company's primary focus is on two-way trade between Canada and the United States, the busiest trade lane in the world. Livingston has more than 55 years' experience, with 1,650 employees in more than 70 offices located at key border points and other strategic locations across Canada and the U.S. The company operates three business lines: Canadian customs brokerage, U.S. customs brokerage and other trade-related services.

Livingston's business has grown steadily. With the signing of the Free Trade Agreement in 1989 and the North American Free Trade Agreement in 1994, trade volumes have increased significantly. Also driving Livingston's growth has been the increasing complexity of complying with governmental, regulatory, and information reporting requirements. The company processed an average of 12,700 transactions per day in 2002 compared with 5,000 per day in 1996, for 14% compound annual transaction growth.

The company's financial results reflect the rise in trading activity and regulations, and Livingston's strong market share. Revenues for the full fiscal year ended December 31, 2002 increased 4.4% to $141.1 million compared with $135.1 million for the previous year. Cost of services increased 0.6% to $81.2 million compared with $80.7 million a year earlier, resulting in a contribution margin of $59.9 million, or 42.5% of revenue for 2002.

Livingston believes it has a number of competitive advantages that are expected to ensure its continued solid financial performance and industry leadership.

Large and Diverse Client Base

Livingston's client base is 13,000 strong, representing businesses of all sizes in virtually all industry sectors. This large base helps stabilize revenues by protecting Livingston from economic fluctuations in particular sectors. The company's clients include some of the largest and most well-known companies in North America, including DaimlerChrysler, Toyota, Hewlett-Packard, General Electric, Dupont, Weyerhaeuser and Alcan Aluminum.

Sophisticated Information Technology

Livingston combines the expertise of highly specialized professionals with the advances of technology and electronic information networks. From tracking transactions to communicating with governments to expediting shipments, information technology plays a critical and growing role in executing trade transactions. Meeting the demands of both governments and clients, Livingston invests heavily in technology to drive competitive advantage and improve productivity. In addition to ensuring efficient electronic communications with all necessary government departments, Livingston offers clients various software tools to aid trade activities.

High Service Levels

Livingston's advanced technology, combined with its team-based approach, results in a high level of service to clients. By providing employees with vast resources through the company's intranet and supporting continuous education, Livingston seeks to ensure that its highly experienced employees continue to meet client needs and exceed expectations. The company's dedication has resulted in strong, long-term client relationships.

Integrated Solutions

Livingston provides importers and exporters with the complete spectrum of customs clearance and trade-related services, including brokerage, regulatory compliance, customs and tax consulting, specialized customs and transportation services for the trade show industry, outsourcing business services, and international and domestic transportation arrangements. Offering a single source for trade services strengthens client relationships and maximizes revenues through cross-selling opportunities.

2002 Operating Highlights

Livingston International made key advancements in several areas of its business during fiscal 2002. Improvements to the customs brokerage area of the business were focused on maintaining Livingston's technological and regulatory leadership to provide the highest quality service to its clients.

The company introduced proprietary new web software to improve the ease and speed of transaction processing, allowing clients to efficiently and cost-effectively meet government requirements for advanced shipping information. One of the programs allows shippers to transmit information electronically in the telecommunications protocol of their choice, where previously shippers had to conform to the more restrictive and costly formal electronic data interchange protocol.

A consistent early adopter of new programs and technologies, Livingston was one of the first U.S. brokers to adapt its processes to conform to a new U.S. customs release program, Free and Secure Trade (FAST). This optional new program is designed to improve security and expedite release and entry processes for qualifying shippers and importers. Along with the National Customs Automation Program Prototype (NCAP/P) and other government initiatives, it provides benefits to clients, shippers and carriers.

Also during the year, Livingston became one of the first brokers to apply for membership in C-TPAT, a key program of the U.S. Customs Service to improve security on the Canada-U.S. border. The application process required extensive submissions of Livingston's security programs and a top-level commitment to adopt best practices in security. C-TPAT encourages importers and their partners to create secure supply chains so that inspectors can focus their attention on shipments from companies whose practices are not known. Livingston was approved for membership in January 2003.

Livingston also added to its North American transportation business through the acquisition of Consultrans Logistics. Headquartered in Oakville, Ontario, Consultrans is focused on transportation brokerage between the U.S. and Canada. The acquisition has doubled Livingston's existing transportation business, allowing the company to quickly expand into a growing business segment and market this service to the company's existing customs brokerage clients.

Outlook

Livingston's strategy for maintaining and building its industry leading position encompasses internal and external growth strategies.

Internally, the company intends to focus on maintaining and enhancing its technological leadership. By facilitating top-quality customer service, Livingston's diverse and sophisticated technological tools have played a critical role in attracting and retaining clients. The company will continue its financial and human investment in information systems to sustain its competitive advantage.

Livingston is also dedicated to becoming a single-source supplier of trade-related services. While customs brokerage currently comprises approximately 75% of its revenues, the company expects to achieve substantial growth through its other lines of business. These include trade consulting services, specialized services for the trade show industry, customized outsourcing services, North American transportation and international freight forwarding. Livingston has been steadily expanding into these additional service areas, cross-selling them to its 13,000-strong client base.

Livingston also intends to grow through strategic acquisitions. As regulations become more complex and sophisticated technology becomes imperative, the traditional small customs brokers are exiting the business. Livingston's market leading position and proven track record in successfully integrating acquisitions places the company in an excellent position to capitalize on the trend toward industry consolidation.

Four clear trends, in our view, are advancing and shaping the trade industry. These are: an expansion in trade; the increasing complexity of complying with regulations; a greater need for information technology; and industry consolidation.

Trade has Been Growing

The globalization of markets and the lowering of tariff and non-tariff barriers by governments worldwide have led to tremendous recent growth in trade. In Canada, total import transactions from all countries grew by 33% from 12.1 million in 1997 to 16.1 million in 2001. In the United States, total import transactions from all countries grew 27% to 22.8 million in 2001 from 17.9 million in 1997.

The largest bilateral trading relationship in the world is between Canada and the United States, with 87% of total Canadian exports going to the U.S. and 63% of total Canadian imports coming from the U.S. in 2002. Livingston has a strong network on both sides of the border and earned approximately 75% of its revenues from Canadian and U.S. customs brokerage in 2002.

Key Statistics for the Year 2002

Value of total imports into Canada	$348 billion
Daily Canada/U.S. Trade Volume	$1.5 billion
Total number of transactions into U.S.	24.8 million
Exports from Canada to U.S.	
Percentage	87%
Dollar value	$347 billion
Total number of transactions into Canada:	15.3 million
Imports from U.S. into Canada	
Percentage	63%
Dollar value	$218 billion

Regulations are Complex and Enforcement is Stronger

Rather than reduce the complexity of trade, the 1994 North American Free Trade Agreement (NAFTA) has increased it. With the elimination of duties has come the burden of complying with increasingly numerous and elaborate regulations. As a result, importers are more reliant than ever on their customs broker to help establish audit trails, report trade activity and collect supporting documentation in order to substantiate their claim to duty-free or reduced-duty privileges. Because of the complexities of the regulatory environment and the information technology requirements necessary to transact with governments, customs processing is one of the most frequently outsourced functions in the supply chain.

As well as meeting the requirements of NAFTA, importers and exporters must comply with a wide range of government regulations regarding international trade. Most goods moving across the U.S.–Canada border must be reported to customs authorities and accounted for, import and export quotas must be adhered to, special permits are often required, security measures must be taken, duties calculated and collected, Goods and Services Tax and similar taxes in Canada must be calculated and collected, and compliance with applicable laws must be ensured. In addition, statistical information for each cross-border shipment must be collected and submitted to various government agencies. Industry experts estimate that successful cross-border transactions require participation by an average of 27 parties.

Governments and Clients Demand Automation and Speed

Efforts by governments to improve security, reduce costs and increase compliance have led to the automation of much of the customs clearance process in both Canada and the United States. As a result, state-of-the-art information systems are a key success factor for customs brokers.

Governments all have their own technological specifications that govern how importers and exporters and their brokers must communicate with them. In addition, the use of technology has shifted government attention toward audit and enforcement rather than processing customs paperwork at border crossings. While this reduces the risk of delayed shipments, it increases clients' risk of penalties arising from non-compliance, enhancing the need for the specialized knowledge and abilities of a customs broker.

Client needs are also driving the use of information technology. As the global marketplace increases reliance on "just-in-time" inventory management, importers and exporters become more and more dependent on reliable, efficient and timely clearing of their goods. Increasing demands by clients for on-line information require customs brokers to provide tailored programs that allow clients instant access to the status of shipments.

The Industry is Consolidating

Historically, the customs brokerage industry has been dominated by small, local or regional family-owned businesses. Over the past several years, the number of Canadian customs brokers has declined dramatically, as the cost of the requisite technology infrastructure, the need for regulatory expertise and the financial resources required to facilitate GST remittances on behalf of clients have accelerated the consolidation of the industry. An estimated 280 firms offered customs brokerage and related services in Canada in 2000, down from more than 510 in 1982.

Customs Brokerage

Customs brokers facilitate the movement of goods across borders through the customs process, navigating an intricate maze of trade regulations on behalf of their clients. Using automated and semi-automated processes, brokers manage the flow of information from the key participants in the supply chain: the exporter, shipper, carriers, importer, customs administration and other government departments. This can involve reviewing the documentation required for a shipment and transmitting it to customs authorities, arranging for customs bonds, assisting in the classification of the goods and remitting the duties and taxes required by the government.

Companies generally prefer to deal with a single customs broker for all of their import activity, as this facilitates both the physical movement of their goods and their regulatory compliance. In addition, it is usually the customs broker who maintains the clients' tariff databases containing the appropriate classifications of their goods. As a result, it can be a disruptive, risky and costly process to switch brokers, and relationships with clients tend to be long-term.

The Canadian customs brokerage industry generated an estimated $500 million in transaction fees in 2000. In the United States, transaction fees are estimated to have amounted to more than U.S. $1 billion for the same period. The customs brokerage industry as a whole has experienced steady growth, which is expected to continue over the medium to long term due to expected increases in international trade.

Livingston International Income Fund (the "Fund") commenced operations on February 11, 2002, when it completed an initial public offering ("IPO") and purchased the common shares of Livingston International Inc. ("Livingston" or "Livingston International") from CAI Capital Corporation and other investors. Livingston International is a wholly owned indirect subsidiary of the Fund.

Livingston International is Canada's leading customs brokerage and trade-related services company facilitating two-way trade between the United States and Canada. Livingston International operates three business lines: Canadian customs brokerage services, United States (U.S.) customs brokerage services and other services that include trade consulting, specialized services for the exhibition and trade show industry, trade-related outsourcing services and transportation management.

This Management's Discussion and Analysis and the accompanying consolidated financial statements of the Fund and the notes thereto present the results of Livingston International and its subsidiaries in Canada and the United States, which conduct the Fund's day-to-day business operations, for the 45-week period from February 11 to December 31, 2002. Revenues, cost of services, contribution margins, selling, general and administrative expenses and earnings before interest, taxes, other expense, depreciation and amortization (EBITDA[1]) have been provided for the full calendar year 2002, with comparative information for 2001 as the Fund believes that this is the only information that is comparable as a result of the change in capital structure of the business following the acquisition of Livingston International Inc. by the Fund.

All financial information is presented in Canadian dollars, unless otherwise specified. References made to fiscal year refer to the period from February 11 to December 31, 2002. The calendar year information presented herein includes the financial information of the underlying business operations prior to the acquisition of Livingston by the Fund.

Forward Looking Statements

Certain statements in this Management's Discussion and Analysis are "forward-looking statements" which reflect management's expectations regarding the Fund and Livingston International's future growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. Many factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including risks related to dependence on cross-border trade, economic conditions, disruptions in border crossings or decreases in foreign trade, competition, regulatory change, foreign exchange rates and interest rates, among others. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Fund and Livingston International cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this report, and neither the Fund nor Livingston International assumes any obligation to update or revise them to reflect new events, assumptions or circumstances.

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[1] While earnings before interest, taxes, other expense, depreciation and amortization (EBITDA) is not a recognized measure under Canadian generally accepted accounting principles (GAAP), management believes it to be a useful supplemental measure. Investors are cautioned that EBITDA should not be construed as an alternative to net income as an indicator of Livingston's performance or to cash flows. Livingston's method of calculating EBITDA may differ from other companies' and may not be comparable to measures used by other companies. For a reconciliation, see Table 1 on page 10.

Livingston International Income Fund

On February 11, 2002, the Livingston International Income Fund completed an initial public offering of 15,102,600 units (the "Units") at a price of $10.00 per Unit for aggregate proceeds of $151,026,000. The proceeds were used to purchase the common shares of Livingston International Inc. (the "Common Shares") from CAI Capital Corporation and other investors. The Fund holds $138 million of 12.675% unsecured, subordinated notes payable by Livingston (the "Livingston Notes"). No additional units have been issued since this date and, as a result, there remain a total of 15,102,600 Units issued and outstanding.

General Information and Results of Operations

The Fund derives its income primarily from the interest received on the Livingston Notes and specific fees received relating to its investment in Livingston International, plus dividends (if applicable). For the period from February 11 to December 31, 2002, the Fund had cash available for distribution[2] of $20.4 million and maintained a reserve of $4.8 million at December 31, 2002.

Distributions

The Fund made total distributions of $15.6 million or $1.033 per Unit relating to the period ended December 31, 2002. A reserve of $0.319 per Unit was retained primarily to fund seasonal fluctuations in cash from operations, unforeseen additional expenses and/or maintenance capital expenditures, and potential increases in future distributions. The reserve is currently held in the operating company, Livingston International. See chart below.

Taxation

The Fund qualifies as a mutual fund trust as defined in the *Income Tax Act (Canada)* (the "Tax Act") and is subject to taxation on its income for the year less the portion paid or payable in respect of distributions to Unitholders. Since it is the intention to pay all of the net income of the Fund to Unitholders, the Fund itself should have no taxable income and, therefore, should not pay any income tax, which was the case for the 2002 fiscal year.

Record of Distributions for 2002

Month	Record date	Paid	Per Unit amount
February-March	April 25	April 30	$ 0.150
April	May 28	May 31	0.095
May	June 25	June 28	0.096
June	July 26	July 31	0.096
July	August 27	August 30	0.096
August	September 25	September 30	0.096
September	October 24	October 31	0.101
October	November 26	November 29	0.101
November	December 24	December 31	0.101
December	January 28	January 31	0.101
Total			$ 1.033

[2]Cash available for distribution (distributable cash) is not intended to be representative of cash flow or results of operations determined in accordance with generally accepted accounting principles and does not have a standardized meaning prescribed by generally accepted accounting principles. Cash available for distribution may differ from similar measures used by other companies. For a reconciliation, see Table 3 on page 13.

From the Unitholders' perspective, amounts paid or payable by the Fund in respect of the distribution period of the fiscal year are taxable in the hands of the Unitholders as interest and dividend income, as the case may be. In certain circumstances, distributions are classified as a return of capital for income tax purposes, rather than as interest or dividend income. For the distribution period from February 11 to December 31, 2002, the distributions to Unitholders were classified as approximately 91% interest, 0% dividends and 9% return of capital for income tax purposes.

Liquidity and Capital Resources

The Fund's operating cash flows are generated entirely from interest on the Livingston Notes, dividends and specific fees earned relating to its investment in Livingston International. Regular monthly distributions are paid to Unitholders based on the cash received less expenses of the Fund and any amounts paid in connection with the redemption of Units. On an on-going basis, the Fund does not expect to require additional capital resources to maintain its investment in Livingston International, other than the renegotiation of credit arrangements from time to time.

Risks and Uncertainties

Among the risks and uncertainties affecting the Fund are the following (see also the Fund's final prospectus dated January 31, 2002):

Dependence on Livingston

The Fund is a trust, which is entirely dependent on the operations and assets of Livingston through the ownership of shares and Livingston Notes. Accordingly, the cash distributions per Unit to the holders thereof is dependent on the ability of Livingston to pay its interest obligations under the Livingston Notes and to declare and pay dividends or make other distributions on its shares, which will depend, among other things, on compliance with applicable laws and its credit facilities. The ability of the subsidiaries of Livingston to pay dividends or make other payments or advances to Livingston will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those subsidiaries, including their credit facilities.

Cash Distributions are not Guaranteed and will Fluctuate with Livingston's Performance

Although the Fund intends to distribute the interest and dividend income earned by the Fund less expenses and any amounts paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Livingston and paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, debt covenants, inter-company guarantees by the Fund, fluctuations in working capital, the sustainability of margins and capital expenditures.

Restrictions on Potential Growth

The payout by Livingston of substantially all of its operating cash flow will make any additional capital and operating expenditures and further acquisitions dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of Livingston and its cash flow.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner which could adversely affect the holders of Units. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax considerations would be materially different.

Income fund structures generally involve significant amounts of inter-company or similar debt, generating substantial interest expense, which serves to reduce earnings and, therefore, income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. Livingston management believes that the interest expense inherent in the structure of the Fund is supportable and reasonable.

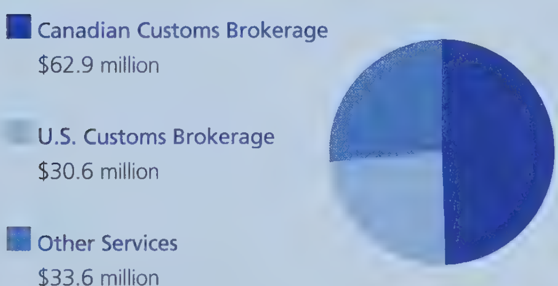
Livingston may be reassessed for taxes from time to time. Such reassessments, the impact of which is not expected to be significant, together with associated interest and penalties could adversely affect Livingston and the Fund.

Livingston International Inc.

General Information and Results of Operations

For the 45-week period between February 11 and December 31, 2002, Livingston International recorded revenues and interest income of $127.1 million, representing a 4.3% increase relative to the same period in 2001. This is due to higher import transaction volumes in the United States of approximately 16% over 2001, offset by a softening in Canadian brokerage volumes by approximately 3.5% and stronger revenues from other services, including the impact of additional revenues from the acquisition of the businesses of Consultrans Logistics Inc. and Oakville Warehousing & Distribution Inc.

Generation of Total Revenues



Net income was $10.3 million for the 2002 fiscal year.

Cost of services for the 45-week period was $73.1 million, resulting in a contribution margin of $54.0 million. As a percentage of revenue, the contribution margin was 42.5% compared with 41.0% for the same period in 2001. This is primarily due to management's continued focus on cost control together with efficiencies gained by the development and implementation of various system enhancements.

Selling, general and administrative expenses for the period totaled $28.1 million, up approximately 4% over the same period in 2001. Among other factors, increased costs of being a public entity together with increases in general administrative expenses, including insurance, contributed to the increase over 2001. This resulted in EBITDA[1] of $25.9 million, or 20.4% of revenue. Compared to the same period in 2001, EBITDA[1] increased by approximately 13%. This increase is due to the higher revenues and continued control of costs resulting in higher contribution margins and increased EBITDA[1] relative to 2001.

Depreciation expense was $5.3 million for the 45-week period ended December 31, 2002, and relates to the depreciation of property, plant and equipment comprised primarily of facilities, computers and office equipment used in operations. When the Fund purchased Livingston International, part of the purchase price was allocated to intangible assets, which represent the value of customer relationships, contracts and technology acquired. Intangible assets are amortized over the expected periods of benefit, generally five to ten years, which resulted in a charge of $10.1 million during the period from February 11 to December 31, 2002. In accordance with generally accepted accounting principles, goodwill represents the excess of the purchase price over the fair value of tangible and intangible assets acquired and is not amortized. It is, however, subject to an annual impairment test to determine if the carrying value is below fair value. No impairment provision was considered to be required during the period from February 11 to December 31, 2002.

Table 1

Quarterly Consolidated Statements of Income

For the period from February 11 to December 31, 2002
(in thousands of dollars, except per unit amounts) (unaudited)

Quarter ended	March 31*	June 30	September 30	December 31	Total
Net revenues	17,898	35,943	35,855	35,613	125,309
Interest income	204	501	514	544	1,763
	18,102	36,444	36,369	36,157	127,072
Cost of services	11,275	20,188	20,988	20,639	73,090
Contribution margin	6,827	16,256	15,381	15,518	53,982
Selling, general and administrative expenses	3,195	8,016	8,378	8,471	28,060
EBITDA[1]	3,632	8,240	7,003	7,047	25,922
Depreciation	813	1,457	1,456	1,612	5,338
Amortization	1,586	2,883	2,539	3,077	10,085
Income before the under-noted	1,233	3,900	3,008	2,358	10,499
Other expenses (income)	(71)	1,022	(976)	119	94
Interest expense					
Long-term debt	167	330	415	416	1,328
Other	108	185	166	197	656
	275	515	581	613	1,984
Income before income taxes	1,029	2,363	3,403	1,626	8,421
Provision for (recovery of) income taxes					
Current	411	696	894	(185)	1,816
Future	(183)	(1,657)	(1,271)	(595)	(3,706)
Net income for the period	801	3,324	3,780	2,406	10,311
Net income per unit (15,102,600 units)	0.05	0.22	0.25	0.16	0.68

* The first quarter includes the period from February 11 to March 31, 2002
Certain expenses have been reclassified from previously reported figures.

Interest expense on long-term debt relating to the bank term debt was $1.3 million for the period from February 11 through December 31, 2002. Other interest expense, which relates to the revolving line of credit for government remittance purposes, was $0.7 million for the period. Certain non-cash interest expenses totaling $0.4 million, which primarily relate to the amortization of deferred finance fees, are also included in interest expense. Interest income of $1.8 million was recorded for the period from February 11 through December 31, 2002, which was reduced by approximately 50% of the amount earned in 2001 primarily due to lower interest rates available during the period.

While the Fund reported pre-tax income of $8.4 million, it recognized a recovery of income taxes of $1.9 million. The recovery of income taxes is comprised of a current tax expense of $1.8 million and future income tax recovery of $3.7 million. On pre-tax income of $8.4 million, the overall expected income tax expense is $3.2 million as compared to a tax recovery reported of $1.9 million. As the Fund is a unit trust for income tax purposes, income allocated to Unitholders reduced the Fund's income tax expense by $6.2 million, while non-deductible items and changes in rates increased the tax expense by $1.1 million. The current income tax expense

Table 2

Consolidated Financial Information
For the years ended December 31, 2001 and 2002
(in thousands of dollars) (unaudited)

	2001	2002
Revenues		
Canadian brokerage	73,275	70,101
U.S. brokerage	28,926	34,157
Other services	32,850	36,871
	135,051	141,129
Cost of services		
Canadian brokerage	(39,132)	(36,275)
U.S. brokerage	(16,664)	(17,560)
Other services	(24,921)	(27,356)
	(80,717)	(81,191)
Contribution margin		
Canadian brokerage	34,143	33,826
U.S. brokerage	12,262	16,597
Other services	7,929	9,515
	54,334	59,938
Selling, general and administrative expenses*	(30,639)	(32,893)
EBITDA[1]	23,695	27,045

* Selling, general and administrative expenses for calendar 2002 exclude a non-recurring expense of $15.5 million incurred by Livingston immediately prior to and in connection with the acquisition by the Fund relating to payments to Livingston optionholders.

reported is the amount of income taxes that are currently payable based on taxable incomes of Livingston and its subsidiaries. The future income tax recovery relates to a reduction in future tax liabilities, primarily as a result of the amortization of intangible assets. Net income was $10.3 million, or $0.68 per Unit, after the recovery of income taxes of $1.9 million. For a further breakdown of the results of operations on a quarterly basis, refer to Table 1 on page 10.

As the results disclosed in accordance with generally accepted accounting principles for the Fund and for Livingston International prior to the IPO are materially different in many respects due to the change in the underlying capital structure, it is difficult to compare all the 2002 financial results of the Fund with those of Livingston International in 2001 and for the period from January 1, 2002 to February 11, 2002. However, management of the Fund believes that the revenues, cost of services, contribution margins, selling, general and administrative expenses and EBITDA[1] of the underlying business are comparable and, therefore, has included this information for the full 2001 and 2002 calendar years in Table 2 for purposes of comparison.

Total revenues increased by approximately 4.4% to $141.1 million for the calendar year 2002 over 2001. Cost of services increased only 0.6% to $81.2 million over 2001, resulting in an increase in contribution margin of approximately 10.3% to $59.9 million in 2002. As a per cent of revenue, contribution margin increased to 42.5% in 2002 from approximately 40.2% in 2001. Selling, general and administrative expenses were $32.9 million in 2002, up approximately 7.4% over 2001, resulting in EBITDA[1] of $27.0 million in 2002, up approximately 14% over $23.7 million in 2001. Quarterly revenues and EBITDA[1] were relatively even throughout the year with the exception of the first quarter, which is typically softer than the other quarters, reflecting the seasonality of the business.

Canadian Customs Brokerage

Revenues in calendar 2002 were down approximately 4.3% primarily due to reduced volumes and lower interest income relative to calendar 2001. Slightly more than half of the reduction in revenue was due to lower interest income, primarily as a result of lower interest rates in 2002. The balance of the reduction was due to lower volumes arising from the uncertainty in all sectors of the economy.

Cost of services, however, was reduced by approximately 7.3% due to the focus on cost controls and the labour efficiencies realized through the implementation of various new system enhancements. This resulted in the contribution margin increasing from approximately 46.6% in calendar 2001 to 48.3% for the calendar year 2002.

U.S. Customs Brokerage

Calendar 2002 revenues increased by approximately 18.1% over calendar 2001, primarily due to increased volumes from new and existing clients, and the impact of the weakening Canadian dollar. Approximately 16% of the increase in revenues was due to increased volumes from both existing and new clients in 2002. The balance of the increase was primarily due to the impact of foreign exchange as the Canadian dollar weakened.

Costs increased by only approximately 5.4% due to continued focus on management of primarily labour and other costs, which resulted in the contribution margin increasing from 42.4% in 2001 to 48.6% in 2002.

Other Services

Revenues in calendar 2002 increased by 12.2% over calendar 2001, primarily in the outsourcing services and consulting business lines, and as a result of the impact of the acquisition of Consultrans in June 2002.

Approximately 6% of the revenue increase related to additional business outsourcing services provided to existing and new clients. The remaining increase was split evenly between the consulting business, where additional regulatory compliance services were provided to clients, and the additional truck transportation brokerage business, resulting from the acquisition of Consultrans in 2002. Revenues in the trade show services and international freight forwarding businesses remained relatively flat in 2002 relative to 2001.

Although costs did increase by approximately 9.8% in 2002, they did not increase as much as revenues due to continued strong management of labour costs, particularly in the consulting and business outsourcing businesses. This resulted in contribution margins improving in all of the other trade-related service businesses, and the overall contribution margin increased to 25.8% in 2002, up from 24.1% in 2001.

Payments to Livingston International Income Fund

Livingston International generated $20.4 million, or $1.352 per Unit of cash available for distribution[2] to the Fund. Cash available for distribution[2] is calculated by deducting cash interest of $1.5 million, maintenance capital expenditures of $2.1 million, and cash taxes of $1.9 million from EBITDA[1] of $25.9 million. Refer to Table 3 on page 13 for a breakdown of these figures by quarter.

Cash payments to the Fund were sufficient to make distributions of $15.6 million in respect of the period to December 31, 2002. This was after retaining a reserve of $0.319 per Unit for seasonal fluctuations in cash from operations, unforeseen additional expenses and/or maintenance capital expenditures, and potential increases in future distributions. The reserve is held in Livingston International.

Table 3

Cash Available for Distribution[2]

For the period from February 11 to December 31, 2002

(in thousands of dollars, except per unit amounts) (unaudited)

Quarter ended	March 31*	June 30	September 30	December 31	Total
EBITDA[1]	3,632	8,240	7,003	7,047	25,922
Less:					
Cash interest expense †	211	399	457	479	1,546
Maintenance capital expenditures ††	86	260	550	1,251	2,147
Cash income taxes †††	411	696	894	(185)	1,816
Other adjustments	6	44	–	(50)	–
Cash available for distribution[2]	2,918	6,841	5,102	5,552	20,413
Distributions to Unitholders **	2,265	4,334	4,425	4,576	15,600
Addition to reserve from current quarter	653	2,507	677	976	4,813
Cumulative reserve – beginning of quarter	–	653	3,160	3,837	–
Cumulative reserve – end of quarter	653	3,160	3,837	4,813	4,813
Per Unit – $					
Cash available for distribution[2]	0.193	0.453	0.338	0.368	1.352
Distributions to Unitholders	0.150	0.287	0.293	0.303	1.033
Addition to reserve from current quarter	0.043	0.166	0.045	0.065	–
Cumulative reserve – end of quarter	0.043	0.209	0.254	0.319	0.319

* The first quarter includes the period from February 11 to March 31, 2002.

** Distributions are in respect of the quarterly distribution period, not what was paid in the quarter.

† Cash interest expense is interest expense calculated in accordance with GAAP less amortization of deferred finance fees.

†† Maintenance capital expenditures are additions, replacements or improvements to property, plant and equipment to maintain Livingston's business operations. Typically, these expenditures involve the replacement of information technology equipment and software, and the improvement of facilities.

††† Cash income taxes are current income taxes calculated in accordance with GAAP.

Liquidity and Capital Resources

The $90 million syndicated credit facility provides for a $60 million revolving term and overdraft credit facility, a $10 million facility to finance certain capital expenditures, which is partly drawn, and a $20 million term facility, which is fully drawn. A portion of the $60 million revolving term facility is required typically at the beginning of each month to facilitate government remittances on behalf of Livingston clients. This is reduced throughout the month as payments are received from clients.

Cash Flow from Operations

During the 45-week period ended December 31, 2002, Livingston International generated $23.2 million of cash flow from operations, prior to changes in other current assets and liabilities. There was a $55.0 million decrease in cash and cash equivalents arising from non-cash related current assets and liabilities. Approximately $60.2 million of this amount was a direct result of the reduction of government remittances payable on behalf of Livingston's clients, attributable to the fact that February 11 is in the middle of a month rather than any material underlying development. The offset to the payable amount is primarily a reduction in accounts receivable of approximately $13.6 million.

Capital Expenditures and Other Investing Activities

The Fund acquired Livingston International on February 11, 2002 for approximately $121 million, net of cash held by Livingston International of $17 million at the acquisition date. Details of the allocation of the purchase price to the various assets and liabilities of Livingston International are described in Note 1 to the Consolidated Financial Statements of the Fund on page 20.

Livingston incurred capital expenditures of $4.3 million for the 45-week period ended December 31, 2002. Of this amount, $2.1 million relates to the improvement of office facilities and to replace workstations (maintenance capital expenditures), $0.4 million relates to the Consultrans integration, and the remaining $1.8 million relates primarily to the upgrade of Livingston International's information technology platform. Livingston International acquired certain assets and liabilities of Consultrans Logistics Inc. and Oakville Warehousing & Distribution Inc. on June 28, 2002. The cash paid includes the purchase price of $3.25 million on closing and purchase-related costs of $0.2 million. Additional consideration of up to an additional $3.25 million depending on the results of the businesses over the next four years has been accrued and is included in accounts payable and other liabilities.

Financing Activities

Livingston International has an operating facility, composed of a revolving line of credit and outstanding cheques, used for making government remittances on behalf of clients. This balance fluctuates depending on the timing of payments to the government near the end of each month and the timing of cash receipts from clients. The increase in the operating facility totaled $261 million for the 45-week period from February 11 to December 31, 2002 due to the timing of the IPO of the Fund being in the middle of the month, as the operating facility was unutilized as of February 11, 2002, as is generally the case in mid-month.

Livingston International also had drawn $24 million on its combined term bank-debt facilities of $30 million at December 31, 2002, maturing February 11, 2005. This was after drawing an additional $4 million on these facilities to fund the acquisition of the Consultrans businesses described above. As previously described, the Fund acquired Livingston International and this was financed by the issuance of 15,102,600 Units for $140 million cash, net of expenses of $11 million. Cash payments made to Unitholders during the period amounted to $14 million, relating to the distribution period ended November 30, 2002.

Risks and Uncertainties

The business and operations of Livingston International are affected by many factors, including:

Dependence on Cross-Border Trade

Livingston's principal businesses are directly related to, and their future performance is dependent upon, the volume of cross-border trade between Canada and the United States. Such trade is influenced by many factors, including economic and political conditions in both countries, major work stoppages, wars, terrorist acts or security operations, exchange controls, border controls, currency fluctuations and Canadian, United States and foreign laws relating to tariffs, trade restrictions, foreign investment and taxation. There can be no assurance that these types of trade-related events beyond the control of Livingston will not have a material adverse effect on Livingston's results of operations.

Vulnerability to Economic Conditions

Livingston's future operating results may be dependent on the economic environments in which Livingston operates. Livingston expects that product demand (and consequently results of operations) will continue to be sensitive to economic conditions and other factors beyond the control of Livingston.

Regulatory Change

Livingston's business is affected by changes in regulatory requirements, customs duties, Goods and Services Tax and other taxes. Such changes could, depending on their nature, benefit or adversely affect Livingston.

Foreign Exchange

For 2002, approximately 25% of Livingston's revenue was earned in U.S. dollars. Exchange rate fluctuations are beyond Livingston's control and such fluctuations could have a material adverse effect on Livingston's reported results. Livingston may in the future choose to enter into hedging transactions to mitigate such rates, but there can be no assurance that any such hedging strategy will, if entered into, be successful.

Interest Earnings

Livingston earns interest on funds held for remittance to governments and pays interest on its indebtedness. On balance, at present, it earns net profit from its cash flow. Reductions in interest rates as well as changes in government remittance payment obligations, remittance timetables or client funding patterns may have an adverse effect on Livingston.

Bonding Requirements

If Livingston is unable to maintain governmentally required bonding in place, its ability to conduct its customs brokerage business would likely be materially adversely affected. In addition, Livingston could be adversely affected if its costs to obtain bonds were to increase.

Credit and Collection

Livingston may, depending on the client and timing of the shipment, pay duties and taxes on behalf of its clients from time to time, thus extending them credit. Although Livingston engages in credit reviews and has not generally experienced material difficulty collecting its accounts receivable, Livingston could be materially adversely affected should it experience difficulty collecting such accounts.

Other Risks and Uncertainties

Other risks, including the impact of competition, the reliance on key personnel and the potential for uninsured or underinsured losses, could have a material adverse effect on Livingston's business. Similarly, in the event of an acquisition that is not successfully integrated or where there are material undisclosed liabilities, Livingston's business could be adversely affected.

Recently Issued Accounting Standards

The Canadian Institute of Chartered Accountants (CICA) has issued Section 3063, Impairment of Long-Lived Assets, which will be effective for the Fund's fiscal year beginning on January 1, 2003. Under this standard, an impairment loss should be recorded when the carrying amount of the long-lived asset is not recoverable and exceeds its fair value.

The CICA has also issued Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, which will be effective for disposal activities initiated by the Fund's commitment to a plan on or after May 1, 2003, with earlier application encouraged. Under this standard, a long-lived asset to be disposed of by sale should be measured at the lower of its carrying amount or fair value less cost to sell and should not be amortized while classified as held for sale. Also, the standard requires that the results of operations of a component of an enterprise that has been disposed of either by sale or abandonment should be reported in discontinued operations.

The Fund is currently evaluating the effect of these changes in accounting policies. Management, however, does not anticipate that these standards will have a material effect on the Fund's results of operations or financial position.

Outlook

The Fund is totally dependent upon Livingston International for cash to make distributions.

Continuing government initiatives to enforce regulatory compliance and enhance border security may provide Livingston with revenue opportunities as companies increase their reliance on customs brokers to move goods quickly and efficiently. As of the printing of this report on March 31, 2003, it is too early to determine the effects, if any, of international uncertainty on Canada-U.S. trade. As with all forward-looking statements, caution must be exercised to ensure that appropriate interpretation is made.

Livingston will continue to strengthen its existing client relationships and endeavour to attract new clients. The company's business outsourcing services, consulting services and transportation management demonstrate potential for growth, particularly through cross-selling these services to established clients. Livingston also continues to explore the possibility of strategic acquisitions.

Management's Report to Unitholders

The accompanying consolidated financial statements of the Livingston International Income Fund and Management's Discussion and Analysis included in this Annual Report have been prepared by management and approved by the Board of Trustees of the Fund. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Fund maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely and comprehensive financial information is prepared.

The Fund's Audit Committee is comprised of Trustees who are neither employees nor officers of the Fund. The Audit Committee meets with management as well with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The external auditors have direct access to the Audit Committee of the Board of Trustees.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP on behalf of the Unitholders, in accordance with generally accepted auditing standards in Canada. 'The Auditors' Report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Fund.

Peter Luit

Peter Luit
President and CEO

Benjamin S. Wong
Senior Vice-President
and CFO

Auditors' Report

To the Unitholders of Livingston International Income Fund

We have audited the consolidated balance sheet of Livingston International Income Fund as at December 31, 2002 and the consolidated statements of income and deficit and cash flows for the period from February 11, 2002 to December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations and its cash flows for the period from February 11, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Mississauga, Canada

February 7, 2003

Consolidated Balance Sheet

As at December 31, 2002

(in thousands of dollars)	
Assets	
Current assets	
Cash and cash equivalents	230,625
Accounts receivable	194,034
Prepaid expenses	1,540
Income taxes recoverable	3,679
Future income taxes *(note 8)*	610
	430,488
Property, plant and equipment *(note 3)*	12,338
Goodwill *(note 1)*	73,057
Intangibles *(note 4)*	74,064
Future income taxes *(note 8)*	4,060
Deferred finance costs - *net of accumulated amortization of $430*	1,058
	595,065
Liabilities	
Current liabilities	
Operating facility – government remittances *(note 6)*	260,862
Government remittances payable	112,261
Unitholder distributions payable	1,525
Accounts payable and accrued liabilities	17,876
Client deposits and advances	9,832
	402,356
Term bank loan *(note 7)*	24,000
Other liabilities	2,728
Future income taxes *(note 8)*	23,060
Employee future benefits *(note 14)*	8,238
	460,382
Unitholders' Equity	
Units *(note 9)*	139,972
Deficit	(5,289)
	134,683
	595,065

Approved by the Board of Trustees

Peter Restler
Trustee

Peter Luit
Trustee

Consolidated Statement of Income and Deficit
For the period February 11, 2002 to December 31, 2002

(in thousands of dollars, except per unit amounts)	
Net revenues	125,309
Interest income	1,763
	127,072
Cost of services	73,090
Selling, general and administrative expenses	28,060
Depreciation	5,338
Amortization	10,085
Income before the under-noted	10,499
Other expense	94
Interest expense	
Long-term debt	1,328
Other	656
	1,984
Income before income taxes	8,421
Provision for (recovery of) income taxes	
Current	1,816
Future	(3,706)
	(1,890)
Net income for the period	10,311
Distributions	(15,600)
Deficit – End of period	(5,289)
Net income per unit – 15,102,600 units	0.68

Consolidated Statement of Cash Flows
For the period from February 11, 2002 to December 31, 2002

(in thousands of dollars)	
Cash provided by (used in)	
Operating activities	
Net income for the period	10,311
Adjustment for non-cash items	
Depreciation and amortization	15,423
Future income taxes	(3,706)
Other liabilities	(349)
Non-cash interest expense	430
Employee future benefits	1,371
Foreign exchange gain	(272)
	23,208
Net change in assets and liabilities *(note 12)*	(55,022)
	(31,814)
Investing activities	
Acquisition of L.I.I. Holdings Corp. – net of cash and cash equivalents acquired of $17,359	(120,466)
Acquisition of businesses *(note 5)*	(3,499)
Property, plant and equipment	(4,296)
Increase in deferred financing costs	(100)
	(128,361)
Financing activities	
Initial public offering of fund units - net of expenses	139,972
Distributions to unitholders	(14,075)
Increase in term bank loan	4,000
Increase in operating facility	260,862
Payments under capital lease obligations	(231)
	390,528
Foreign exchange gain in cash held in foreign currency	272
Increase in cash and cash equivalents and balance – End of period	230,625
Cash disbursements made for	
Income taxes	2,214
Interest	1,546

All figures are expressed in thousands of dollars, except per unit amounts.

1. The Fund

Livingston International Income Fund (the "Fund") is a trust established under the Laws of the province of Ontario pursuant to a Declaration of Trust dated January 4, 2002. The Fund was created to invest in common shares and $138,000 of 12.675% unsecured subordinated notes of Livingston International Inc. (the "company" or "Livingston").

These financial statements reflect the results of operations from February 11, 2002 to December 31, 2002. As the Fund commenced operations on February 11, 2002, no comparative information is provided.

On January 31, 2002, the Fund filed a final prospectus for the sale of 15,102,600 units at the price of $10.00 per unit, for aggregate gross proceeds of $151,026. The costs of issuance of the units were $11,054, resulting in unitholders' equity of $139,972. On February 11, 2002, in conjunction with the closing of the public offering, the Fund acquired all the outstanding shares of L.I.I. Holdings Corp. Concurrent with the acquisition, L.I.I. Holdings Corp. reorganized, which included the statutory amalgamation of certain subsidiaries of the Fund. The amalgamated company continued as Livingston International Inc.

The acquisition has been accounted for by the purchase method with the results of operations included in earnings from the date of acquisition. The purchase price has been allocated to the fair values of the net assets acquired as follows:

(in thousands of dollars)	
Cash and cash equivalents	17,359
Accounts receivable	204,520
Property, plant and equipment	13,099
Other assets	2,917
Future income taxes	(22,096)
Intangible assets	78,200
Goodwill	73,057
Government remittances and accounts payable	(185,933)
Other liabilities	(23,298)
Long-term debt	(20,000)
Consideration paid in cash	137,825

2. Summary of Significant Accounting Policies

The Fund prepares its financial statements in accordance with Canadian generally accepted accounting principles.

Principles of Consolidation

The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiary companies. All intercompany transactions have been eliminated.

Foreign Currency

Foreign currency assets, liabilities, income and expenses are translated into Canadian dollars using the rate of exchange in effect at the dates of the transactions except for monetary assets and liabilities, which are translated using the rates of exchange in effect at the year-end. Exchange gains and losses arising on these items are included in earnings. Unrealized gains and losses arising from translation of foreign operations are included in other expense.

Revenue Recognition

The Fund records revenue when the services are rendered. Revenue for international freight forwarding and cross-border transportation services is reported net of carrier charges.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less. Interest earned on these balances is included in interest income and is recorded on an accrual basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed at annual rates based on the estimated useful lives of the related assets as follows:

Buildings	5% declining balance
Automotive equipment	30% declining balance
Computer and other equipment	
Office furniture and equipment	20% declining balance
Mainframe computer hardware	straight-line over 4 years
Personal computers	straight-line over 2 years
Application software	straight-line over the lesser of 4 years or useful life
Software licences	straight-line over the lesser of term of licence or useful life of hardware
Leasehold improvements	straight-line over term of lease

Goodwill

Under Canadian generally accepted accounting principles, goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset may be impaired. The Fund's goodwill is not deductible for income tax purposes. Impairment is recognized when the estimated fair value of the goodwill is lower than the carrying value.

Intangibles

Intangible assets acquired comprise customer relationships, contracts, customer lists and technology having definite lives and brand names having an indefinite life. Intangible assets having definite lives are amortized on a straight-line basis over their estimated useful lives of five to ten years.

Deferred Finance Costs

Deferred finance costs are amortized and charged to interest expense over the term of the related debt.

Income Taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on taxable income not allocated to unitholders. As substantially all taxable income is allocated to unitholders, no provision for income taxes has been made for earnings of the Fund. Income taxes in the Fund's subsidiaries are accounted for using the liability method. Future income taxes arise due to temporary differences in the financial reporting and tax bases of assets and liabilities. Changes in these temporary differences are reflected in the provision for future income taxes using substantively enacted income tax rates.

Employee Benefit Plans

The Fund accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Fund has adopted the following policies:

- The cost of pension and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health-care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The estimated average remaining service period of active employees covered by the pension plan and other retirement benefit plans is approximately 12 years.

Financial Instruments

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, government remittance operating facilities, government remittances payable, accounts payable and accrued liabilities, and long-term debt.

The carrying value of cash and cash equivalents, government remittance operating facilities, accounts receivable, government remittances payable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. The fair value of the Fund's long-term debt approximates its carrying value as it bears interest at a floating rate.

The Fund is exposed to credit risk with respect to its cash equivalents. Credit risk is minimized substantially by ensuring that these financial assets are placed with governments, well-capitalized financial institutions and other creditworthy counter-parties. An ongoing review is performed to evaluate changes in the status of counter-parties.

The Fund is exposed to credit risk with respect to its accounts receivable; however, this is minimized by the Fund's large customer base, which covers a diverse range of business sectors in Canada and the United States. The Fund follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

The Fund is also exposed to foreign exchange risk as a portion of its net revenues is earned in United States (U.S.) currency, and it has assets and liabilities that will be settled in U.S. currency. Foreign exchange risk arises due to fluctuations in foreign currency rates, which could affect the Fund's financial results. The Fund does not use any derivative instruments to manage its exposure to this foreign exchange risk.

Use of Estimates

The preparation of financial information in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the balance sheet. Actual results may differ from these estimates.

3. Property, Plant and Equipment

(in thousands of dollars)

	Cost	Accumulated depreciation	Net
Land	94	–	94
Buildings	560	25	535
Automotive equipment	258	48	210
Computer and other equipment	14,733	4,701	10,032
Leasehold improvements	2,031	564	1,467
	17,676	5,338	12,338

4. Intangibles

Intangibles consist of the following:

(in thousands of dollars)	
Technology	13,000
Contracts, customer relationships and customer lists	62,749
	75,749
Less: Accumulated amortization	10,085
	65,664
Brand names with an indefinite life	8,400
	74,064

5. Acquisition of Businesses

On June 28, 2002, certain assets and liabilities of Consultrans Logistics Inc. and Oakville Warehouse & Distribution Inc. were acquired. The acquisition has been accounted for by the purchase method with the results of operations included in earnings from the date of acquisition. Under the terms of the purchase agreement, up to an additional $3,250 is estimated to be paid out over the next four years, dependent upon the future earnings generated from the customers of the acquired businesses. The current portion of this additional purchase consideration of $1,702 has been included in accrued liabilities, and the long-term portion of $1,548 has been included in other liabilities.

The purchase price allocation is as follows:

(in thousands of dollars)	
Accounts receivable and other assets	3,127
Property, plant and equipment	281
Customer lists	5,949
Accounts payable and other liabilities	(2,608)
	6,749

Consideration:

Cash	3,499
Accrued consideration	3,250
	6,749

6. Operating Facility – Government Remittances

The operating facility consists primarily of outstanding cheques for duties, goods and services taxes and other taxes payable to governments in Canada and the United States. The Fund has a bank facility and cash and short-term deposits available to fund the payment of these outstanding cheques. Borrowings under the bank facility bear interest at prime plus 0.25%. This facility and the term bank loan are secured by a general security agreement, a general assignment of book debts and a fixed and floating debenture over all assets of the Fund's subsidiaries.

7. Term Bank Loan

Of the term bank loan facility of $30 million, $24 million is currently outstanding and bears interest at prime plus varying interest rates between 0.25% and 1.25%, dependent upon certain financial performance ratios. During the period ended December 31, 2002, the effective term loan interest rate was 4.49%. At December 31, 2002, the term bank loan rate was at 4.75%. Under the terms of the loan agreement, the Fund must maintain certain financial covenants and financial ratios. The term bank loan is repayable in 2005; however, up to $4 million is repayable prior to maturity at the Fund's option. The unused portion of the term bank loan of $6 million is available for certain capital expenditures.

8. Income Taxes

The recovery for income taxes differs from the provision computed at statutory rates as follows:

(in thousands of dollars)	
Expected tax at a combined statutory rate of 38.5%	3,242
Trust income not taxable	(6,267)
Non-deductible items	202
Effect of foreign tax rates	79
Effect of change on rates on future taxes	157
Non-deductible foreign exchange losses	238
Other items	459
	(1,890)

The tax effects of significant components of temporary differences giving rise to the Fund's future income taxes are as follows:

(in thousands of dollars)	
Other liabilities	715
Employee future benefits	2,615
Provisions and other temporary differences	1,340
Total future tax assets	4,670
Property, plant and equipment	254
Intangibles	22,806
Total future tax liabilities	23,060
Net future tax liabilities	18,390
Classified as follows:	
Current future tax asset	610
Long-term future tax asset	4,060
Long-term future tax liabilities	23,060

9. Unitholders' Equity

An unlimited number of units may be issued pursuant to the Declaration of Trust. An aggregate of 15,102,600 units have been issued. Each unit is voting, transferable and represents an equal undivided beneficial interest in the Fund and in any distributions of the Fund.

(in thousands of dollars)	
Issued	
15,102,600 units	151,026
Unit issue costs	(11,054)
	139,972

Long-Term Incentive Plan

The trustees, directors, officers and key senior management of Livingston and its affiliates are eligible to participate in the Long-Term Incentive Plan (the "LTIP").

The unit-based LTIP is currently expected to provide for aggregate maximum incentive payments based on the following thresholds, assuming that per unit distributions exceed $1.15 per unit per annum:

Amount of excess distributions per unit over $1.15 per unit per annum	Maximum proportion of excess distributions available for incentive payments
up to 5 cents	10%
5 cents to 10 cents	15%
over 10 cents	20%

The amounts will be used to purchase units in the market that will be held subject to a three-year vesting period. These figures are subject to adjustment by the Compensation and Corporate Governance Committee from time to time. However, in no event will the maximum proportion of excess distributions that will be available for incentive payments exceed 20%.

It is the Fund's policy to accrue the LTIP amount as an expense as distributions are made in accordance with the LTIP policy. The LTIP amount accrued for the period February 11, 2002 to December 31, 2002 is $34.

10. Segmented Information

The Fund's reportable segments comprise Canadian customs brokerage and United States (U.S.) customs brokerage. These segments follow the same accounting policies, as described in the summary of significant accounting policies, and all intersegment revenues are recorded at exchange amounts. Management evaluates the performance of each segment based on operating segment contribution, which includes salaries expense and selling, general and administrative expenses directly attributable to the segment. The segment labelled "Other Services" includes other business lines of the Fund such as trade consulting, transportation and package handling. Interest expense, other expense, income taxes, depreciation and amortization are not taken into account in the evaluation of the performance of the business segments.

Assets do not form part of management's evaluation of the performance of individual segments and are therefore not reported on a segmented basis.

The Fund has no customers for which revenues exceed 10% of total net revenues.

Business Segments

For the period from February 11, 2002 to December 31, 2002 (in thousands of dollars)	Canadian customs brokerage	U.S. customs brokerage	Other services*	Elimination of intersegment revenues	Total
Net revenues	61,099	30,560	34,310	(660)	125,309
Interest income	1,763	–	–	–	1,763
Cost of services	(32,737)	(15,803)	(25,210)	660	(73,090)
Operating segment contribution	30,125	14,757	9,100	–	53,982
Selling, general and administrative expenses					28,060
Depreciation and amortization					15,423
Interest expense					1,984
Other expense					94
Income tax recovery					(1,890)
Net income					10,311

* Included in other services are consulting revenues of $9,165 and cost of services of $7,850.

Geographic Information

The Fund operates in two geographic segments, Canada and the United States. Net revenues are attributed to the geographic segment based on the location where the service is performed.

(in thousands of dollars)	
External net revenues	
Canada	92,741
United States	32,568
	125,309
Property, plant and equipment and goodwill	
Canada	81,465
United States	3,930
	85,395
Capital expenditures	
Canada	3,633
United States	663
	4,296

11. Commitments and Contingencies

Leases and Other Commitments

Branch office locations are occupied under leases generally not exceeding five years, and certain equipment is leased for periods generally not exceeding five years.

The future minimum payments for operating leases are as follows:

(in thousands of dollars)	
2003	7,903
2004	6,571
2005	5,104
2006	4,135
2007	3,775
Thereafter	6,947

The Fund has filed $22,000 in performance bonds with the Canada Customs and Revenue Agency and the U.S. Treasury Department to allow it to operate as a customs broker and to facilitate the release of clients' goods from Customs prior to the payment of duties and taxes.

An irrevocable letter of credit for $400 has been placed with Chiefton Investments Ltd. and Investors Group Trust Co. Ltd. as a security deposit. This letter of credit is renewed automatically each year and will remain in place indefinitely.

Contingencies

The Fund's subsidiaries are involved in litigation and other claims arising in the normal course of business. Management believes that any liability that may arise from such contingencies would not have a significant adverse effect on the financial position of the Fund.

12. Net Change in Assets and Liabilities

(in thousands of dollars)	
Accounts receivable	13,566
Prepaid expenses	35
Government remittances and accounts payable	(60,200)
Client deposits and advances	(3,960)
Income taxes recoverable	(4,463)
	(55,022)

13. Other Expense

Included in other expense are losses arising on the translation of foreign operations and the exchange gains from the translation of U.S. dollar denominated monetary assets and liabilities for the year ended December 31, 2002 of $94.

14. Employee Future Benefits

Information about the Fund's benefit plans and significant actuarial assumptions adopted in measuring the Fund's benefit obligations is as follows:

(in thousands of dollars)	Pension plan	Other benefit plans
Plan assets		
Fair value – Beginning of period	20,800	–
Actual loss on plan assets	(1,584)	–
Employee contributions	105	–
Employer contributions	–	143
Benefits paid	(1,426)	(143)
Transfer to defined contribution pension plan	(818)	–
Fair value – End of period	17,077	–
Plan obligation		
Accrued benefit obligation – Beginning of period	21,192	6,475
Current service cost	335	116
Interest cost	1,283	416
Benefits paid	(1,426)	(143)
Actuarial (gains) losses	1,152	(595)
Accrued plan obligation – End of period	22,536	6,269
Plan surplus (deficit)		
End of the period plan fair value, less accrued pension obligation	(5,459)	(6,269)
Unamortized net actuarial (gain) loss	4,085	(595)
Accrued liability	(1,374)	(6,864)
Weighted average assumptions as of December 31, 2002	Pension benefits (%)	Other benefits (%)
Discount rate	6.5	6.5
Expected return on plan assets	7.5	–
Rate of compensation increase	3.5	3.5

The Fund's subsidiary also maintains a defined contribution plan. The employer contributions expensed during the period ended December 31, 2002 were $818.

Unitholder Information

Board of Trustees

Livingston International Inc. Officers

Stock Exchange Listing

The Toronto Stock Exchange
Stock symbol: LIV.UN

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Annual Meeting

The Annual Meeting of
Unitholders will be held
May 5, 2003 at 10:00 a.m.
The TSX Conference Centre
The Exchange Tower
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